Lobbyists Plug In to Debate Over Electric Competition

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A massive battle is shaping up in the new Congress to write the rules that will allow consumers to shop for electricity the same way they choose among long-distance telephone companies.

After decades of deregulation to bring competition to the trucking, air travel and telecommunications industries, "this is the biggest one," said John A. Anderson, director of a group of chemical companies, automakers and other large industrial users of electricity. At stake is a market worth more than $200 billion.

An army of lobbyists, including former Capitol Hill lawmakers and staffers, have been hired by the companies and interest groups that want to shape the outcome. "Every lobbyist in town is trying to get a piece of electricity," a House Commerce Committee staffer said.

The issue is whether and how to expand competition into the retail markets—potentially creating a choice of prices, packages and suppliers of electricity for homeowners, manufacturers, retailers, school systems, farmers and others. Proponents of increasing competition have predicted that doing so could reduce the nation's electricity costs by 20 percent to 40 percent.

Supporters point to the success over time of similar efforts, including lower air fares and cheaper long-distance phone service because of deregulation in transportation and communications. But skeptics said the chief beneficiaries of electric utility deregulation may be large-scale customers. such as energy-

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A Current Priority on the Hill: Plugging Competition Into the Electricity Business

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intensive industries, which will be courted with low prices.

Consumers who use less power, including residential users, may see little if any benefit, according to these critics.

Investor-owned utilities, companies that market natural gas and electricity, independent power producers, and electricity-consuming corporations all have deeply held beliefs, aligned with their own self-interest, about how and when that should come to pass.

House Commerce Committee Chairman Thomas J. Bliley Jr. (R-Va.) and Rep. Dan Schaefer (R-Colo.), who chairs the subcommittee on energy and power, have made it clear that electric utility restructuring will be one of the Commerce Committee's top priorities during this Congress.

"Originally I envisioned 1997 as being the year to educate the public and 1998 as the year to pass legislation," Bliley said. But, because of deregulation bills introduced in the last Congress and action by several states to open markets, that schedule has been shortened, he said.

Bliley said he expects bipartisan support for opening up the industry.

The electric utility industry since the 1930s has been a system of monopolies regulated by the states they serve.

Utilities have been protected from competition and guaranteed a rate of return beyond their costs, a rate determined by the regulators. As a result, electricity prices vary by state.

Residential customers in the state of Washington, where rates are the lowest, paid an average cost of 5.1 cents per kilowatt hour in the first nine months of 1996, for example, compared with customers in New York, where electricity is the most expensive, who paid an average of 14.2 cents per kilowatt hour.

The system began to change in the 1970s when Congress passed legislation that allowed non-utility companies to produce electricity, which they could use or sell to their local utility. In 1992 Congress went a step further, deregulating the wholesale market for electricity, which allowed utilities and some municipalities to shop for the lowest-cost provider of power.

That wholesale competition got underway last year when the Federal Energy Regulatory Commission issued rules requiring companies that own transmission facilities to deliver power from other generators at reasonable, nondiscriminatory rates. That allows a utility company to buy power through a national market and transport it using another company's transmission lines.

Six states have gone further toward opening up retail markets. These changes, and the anticipation of more, already have begun reshaping the industry. Since 1995 18 proposed mergers of utility companies, including some between gas and electric utilities, have been announced. Among them is the proposed merger of Potomac Electric Power Co. and Baltimore Gas & Electric Co., which still is awaiting regulatory approval.

The consolidation in the industry is designed to position companies to survive the coming shakeout by giving the combined companies a bigger customer base and an advantage when the starting pistol goes off.

The United States has more generating capacity than it needs—about $150 billion worth, by some accounts. Companies with expensive or inefficient capacity, including nuclear power plants, may be at a disadvantage with competition, although these companies will try to convince Congress and state regulators they shouldn't be stuck with the losses from expensive capacity built in good faith and with regulatory approval. In the lexicon of the coming contest, this is known as the debate over "stranded costs."

Electric utilities are divided on restructuring of their industry. The Edison Electric Institute (EEI), which represents investor-owned utilities, has already lost one member, Central Illinois Light Co., which wants to move more rapidly than the association. The EEI last year assessed its 120 member companies 10 percent of their dues to raise about $4 million for the fight.

EEI's senior vice president for finance, regulation and power supply policy, David K. Owens, said the organization is not taking a go-slow approach, as it is often characterized by others. "It's a get-it-right approach, and it is an approach that says, 'Let's deliberate on the right sets of issues,' " he said.

Among the issues that the EEI wants resolved are whether investor-owned utilities will get access to the transmission grids owned by public power providers, such as the Tennessee Valley Authority, and whether legislation that restricts the ability of utility holding companies to operate outside state borders will be repealed.

Joining many investor-owned utilities in cautioning against a rush to competition is the International Brotherhood of Electrical Workers, which fears that jobs will be lost in the shakeout and that cost competition will hurt wages and benefits. Deregulation may threaten reliability, universal service and environmental improvements, the union said.

James L. Dushaw, director of the union's Utility Department, said the union doesn't oppose restructuring and has a good rapport with Schaefer, one of its principal proponents. But he questions whether introducing competition will result in lower prices in the long run. "What we're really talking about is attracting capital to build generation, whereas in the past generating capacity has been created by demand," he said.

That means, in Dushaw's view, that capacity will decrease until people are willing to pay higher prices for electricity. Power failures could be one way to increase this willingness, he said.

"If you have brownouts, can you push price with that?" he said. "Absolutely."

"The people who want delay are mainly those who don't want it at all," said Kenneth L. Lay, chairman and chief executive of Enron Corp. Enron, a huge integrated natural gas company that has quickly become the nation's largest marketer of electric power, is one of the strongest proponents of restructuring. This month it unveiled a new advertising campaign, estimated to cost about $25 million, to position itself in the anticipated competition for markets.

"We believe the deregulation of the retail electric markets should proceed ahead as soon as possible," said Lay, who said savings could mount up to 30 percent to 40 percent of the current market.

"You're talking about potential savings of $60 billion to $80 billion for the U.S. economy and consumers."

FOR MORE INFORMATION

For a summary and full text of the utility deregulation bills considered by Congress, click on the above symbol on the front page of The Post's site on the World Wide Web at http://www.washingtonpost.com